Asetek A/S
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Denmark

Half Year Report

Second Quarter and Six Months Ended June 30, 2020

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Company Registration (CVR) Number 34 88 05 22

Highlights

- **Q2 revenue of $14.1 million compared with $17.1 million in Q2 2019**
- **Gross margin increased to 51% in Q2 and first half, from 42% in both prior year periods**
- **Q2 EBITDA adjusted of $3.1 million, compared with $3.3 million in Q2 2019 which included a $0.8 million positive effect from a favorable patent litigation settlement**
- **First-half revenue of $23.3 million and EBITDA adjusted of $3.3 million compared with $28.3 million and $3.6 million respectively in 2019**
- **Collaboration with Hewlett Packard Enterprise (HPE) to deliver data center liquid cooling solutions for HPC and artificial intelligence applications**
- **2020 Group revenue expectation updated in July to an increase of 5% to 15%, from a previously expected decrease, compared with 2019 revenue of $54.3 million**
- **Gross margin is expected to increase from 2019 and Asetek expects an income before tax of about $4 to $5 million, up from $1.5 million in 2019**

Key figures

Figures in USD (000's)	Q2 2020	Q2 2019	1H 2020	1H 2019	2019
Summary P&L:	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	14,147	17,103	23,271	28,282	54,334
Gross profit	7,275	7,156	11,773	11,925	23,005
Gross margin	*51.4%*	*41.8%*	*50.6%*	*42.2%*	*42.3%*
Operating income	2,000	2,118	1,079	1,092	1,048
Reconciliation from IFRS to EBITDA adjusted:					
Operating income	2,000	2,118	1,079	1,092	1,048
Add: Depreciation and amortization	848	923	1,721	1,946	4,057
Add: Share based compensation	280	221	501	539	1,056
EBITDA adjusted (unaudited)	3,128	3,262	3,301	3,577	6,161
Liquidity at period end:					
Working capital	28,107	26,854	28,107	26,854	27,919
Cash and equivalents	24,780	25,762	24,780	25,762	24,505
Long-term debt	2,380	3,159	2,380	3,159	2,774

Highlights

Financial results

- Asetek reported second quarter revenue of $14.1 million compared with $17.1 million in the same period of 2019. First-half 2020 revenue was $23.3 million compared with $28.3 million in 2019. The change from prior year reflects Asetek's transition to a new business model and declining sales to one OEM customer. There was no significant impact from the COVID-19 pandemic on revenue, supply chain or overall operations during the quarter.
- Gross margin was 51% for the second quarter and the first half, up from 42% in both comparable periods of the prior year, yielding a year-over-year increase in second-quarter gross profit. The gross margin increase reflects higher sales prices for Data center products, a stronger U.S. dollar, a richer product mix and Asetek's business model transition for Gaming and Enthusiast OEMs that customize their liquid coolers.
- Operating income totaled $2.0 million and adjusted EBITDA was $3.1 million in the second quarter of 2020, compared with operating income of $2.1 million and adjusted EBITDA of $3.3 million in the second quarter of 2019. Operating expenses in the second quarter of 2019 included a positive effect of $0.8 million related to a favorable patent litigation settlement. First-half 2020 operating income was $1.1 million and adjusted EBITDA was $3.3 million, compared with operating income of $1.1 million and adjusted EBITDA of $3.6 million in the same period of 2019.
- In April, the Company announced a share buy-back program to offset employee option grants. The Company may purchase up to 1.0 million Asetek shares on the open market for a maximum cost of $4.5 million through September 2020. In the second quarter, the Company repurchased 287 thousand shares under this program for a total cost of $1.64 million.
- At June 30, 2020, Asetek had working capital of $28.1 million, of which $24.8 million is cash and cash equivalents. Long-term debt totaled $2.4 million.

Operations

- In July, the Company announced collaboration with Hewlett Packard Enterprise (HPE) to deliver its premium data center liquid cooling solutions in HPE Apollo Systems targeting high performance computing and artificial intelligence applications.
- During the quarter, Asetek announced its new Rad Card GPU Cooler, the industry's first slot-in PCIe radiator card to provide liquid cooling for GPU's in space constrained PC cases.
- Asetek announced its technology is powering the new Fractal Design Celsius+ CPU coolers, providing enthusiasts enhanced performance, virtually silent operation and elegant design.
- During the quarter, the Company shipped $0.8 million of InRackCDU™ and related hardware to fulfill the largest order received to date from an existing OEM partner, to supply liquid cooling for a new high-density HPC cluster in North America.

Outlook

- On July 21, Asetek updated its full-year revenue outlook. Following increased sales expectations for the rest of 2020, primarily driven by strong demand for the Gaming and Enthusiast product group, the Group revenue expectation was updated to an increase of 5% to 15%, corresponding to between $57.1 million and $62.5 million, compared with 2019 revenue of $54.3 million, from the previous expectation of a decline in revenue of 5% to 10% year over year. Gross margin is expected to increase from 2019, and Asetek expects an income before tax of about $4 to $5 million, compared with $1.5 million in 2019.
- The Company recognizes significant uncertainty related to potential impact from COVID-19 over time. Any such uncertainty is not included in the expectations for the remainder of 2020.

Financial review

The figures below relate to the consolidated accounts for the second quarter and first half of 2020. Beginning in 2020, the Company's results are reported as one segment. Refer to Note 7 in the Consolidated Interim Financial Statements. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of $14.1 million in the second quarter of 2020, a decrease from $17.1 million in the second quarter of 2019. Total revenue in the first half of 2020 was $23.3 million compared with $28.3 million in the same period of 2019. Sales unit volumes of sealed loop coolers for the second quarter of 2020 were 220,000, a decline of 23% from the same period of 2019 (284,000). Unit shipments for the first half were 363,000, a decrease of 22% from 2019. Average selling price (ASP) per unit in both the second quarter and first half of 2020 decreased from the prior year periods. The above fluctuations reflect the effects of Asetek's ongoing business model transition and declining sales to one OEM customer. Shipments under the new model have lower ASPs as Asetek delivers only the principal core technology with improved margins, while the customer adds their unique features with ancillary components.

Gross margin improved to 51.4% for the second quarter of 2020, from 41.8% in the same period of 2019. Gross margin for the first half of 2020 was 50.6% compared with 42.2% in the first half of 2019. The new business model, increased prices for Data center products, a stronger U.S. dollar, product mix, and ongoing cost reductions all contributed to the margin improvement.

Total operating expense increased to $5.3 million in the second quarter of 2020 from $5.0 million in the same period of 2019. Operating expense in the second quarter of 2019 was reduced by the positive effect of $0.8 million related to a favorable patent litigation settlement. For the first half of 2020, operating expense decreased to $10.7 million ($10.8 million).

Costs incurred for defense of existing intellectual property (IP) and securing new IP decreased to $0.4 million and $1.2 million in the second quarter and first half of 2020 ($0.7 million and $1.4 million in the respective periods of 2019).

Share based compensation cost associated with warrants and options issued to employees was $0.3 million and $0.5 million in the second quarter and first half of 2020 ($0.2 million and $0.5 million in the respective periods of 2019).

Currency effects from a 2% stronger U.S. Dollar, on average, against the Danish krone (DKK) had a favorable impact on operating expense during the first half of 2020 compared with the first half of 2019.

Finance expenses included net foreign exchange loss of $0.3 million in the second quarter and $0.1 million in the first half of 2020. This compared with loss of $0.1 million and gain of $38,000 for the respective periods of 2019.

Asetek reported income before tax of $1.6 million and $0.9 million in the second quarter and first half of 2020, compared with income before tax of $2.0 million and $1.2 million for the respective periods of 2019.

During the second quarter 2020, the U.S. Dollar, on average, weakened versus the Danish krone. Currency translation adjustment of positive $0.5 million and positive $58,000 is included in other comprehensive income for the second quarter and first half of 2020 (positive $0.2 million and negative $94,000 in the second quarter and first half of 2019).

Balance Sheet (Consolidated)

Asetek's total assets at June 30, 2020 amounted to $50.7 million, compared with $54.1 million at December 31, 2019. Trade receivables decreased by $2.6 million due to lower revenue in the second quarter compared with the fourth quarter of 2019. Property and equipment also decreased during the first half of 2020. Total liabilities decreased by $3.0 million in the first half as a result of payment of trade payables.

Working capital (current assets minus current liabilities) totaled $28.1 million at June 30, 2020, an increase of $0.2 million from 2019 year-end. Total cash and cash equivalents was $24.8 million at June 30, 2020.

Cash Flow (Consolidated)

Net cash provided by operating activities was $3.4 million for the first half of 2020, compared with $8.6 million in the same period of 2019. The decline from prior year was principally due to the reduction in accounts payable in 2020.

Cash used by investing activities was $1.0 million for the first half of 2020, related to additions of capital equipment and capitalized development. ($1.2 million used in 2019).

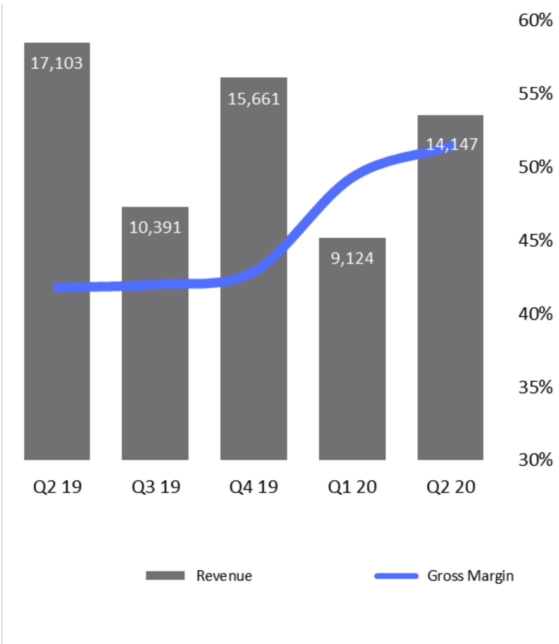
Cash used by financing activities was $2.1 million in the first half, including $1.6 million for the repurchase of Asetek's common shares and $0.4 million of payments on capitalized leases. The Company also paid down its line of credit by $0.2 million. (Total cash used for financing in 2019 was $0.3 million).

Net change in cash and cash equivalents was an increase of $0.3 million in the first half of 2020, compared with an increase of $7.1 million in the first half of 2019.

Market Update

Group revenue and margin development

USD (000's)



Gaming and Enthusiast. In the second quarter, two new products began shipping for a major enthusiast brand, Asus ROG. The Company introduced the new Rad Card GPU Cooler, the industry's first slot-in PCIe radiator card to provide liquid cooling for GPU's in space constrained PC cases. Asetek also announced that its technology is powering the new Fractal Design Celsius+ CPU coolers, providing gamers and enthusiasts enhanced performance, virtually silent operation and elegant design.

Asetek is transitioning its business model to better fit customer requirements and to increase margins. Under the new model, OEM customers can purchase the core liquid cooler and then develop and implement their own unique features and industrial design for both the product and packaging. This change ensures that Asetek's products stay competitive in the market. Shipments under this new business model have lower ASPs and revenue as Asetek delivers a subset of its typical finished product while improving margins from sale of the Company's core technology. This change also frees up R&D resource to focus on innovation and development of the core liquid cooling solutions and IP in support of long-term competitiveness and profitable growth.

Over the past year, Asetek has increased investments in Gaming and Enthusiast product development and branding. Work continues with key customers on several brand-behind-the-brand initiatives to feature the Asetek logo on box packaging, websites (Figure 1), forums, and packaging inserts. Initiatives also include written features about Asetek on partners' websites, participation in live events and live streams to communicate the commitment to performance, quality and reliability that the "Cooled by Asetek" mark represents.

Figure 1:

Asetek co-branding on Alienware website

Data center. In January, Asetek's InRackCDU™ Rack level direct to chip (D2C) liquid cooling solution was chosen by a global server OEM for a refresh of an existing server product platform. In July, Asetek announced that the new partner is Hewlett Packard Enterprise (HPE). HPE plans to incorporate Asetek's premium liquid cooling in HPE Apollo Systems, targeting high performance computing (HPC) and artificial intelligence (AI) applications. Commercial shipments are expected to begin in this calendar year. A server product platform is typically upgraded every 18 to 24 months. Early estimates indicate a revenue potential of $4 to $5 million over the course of the product life.

In February, Asetek began delivering waste heat from its in-house data center to Aalborg Forsyning, the city's municipal district heating network. Asetek's RackCDU liquid cooling systems capture and deliver heat to the network to help warm homes and businesses in the city of Aalborg. This connection demonstrates the viability of Asetek's technology in enabling power savings and reducing CO2 emissions.

Data center business activity increased in the first half of 2020. This effect combined with higher sales prices resulted in a year-over-year increase in financial performance.

Today, Asetek has major liquid cooling installations at multiple HPC sites in North America, Asia and Europe and is liquid cooling thirteen of the world's most powerful and efficient supercomputers listed in the June 2020 TOP500 fastest supercomputers in the world and the Green500 most efficient supercomputers in the world, including two systems in the top 20 of each list.

Group Outlook

Asetek has historically experienced significant quarterly revenue fluctuations which impacts short-term predictability. Therefore, the Company has discontinued quarterly and segment financial forecasts and instead guides on expected Group annual results only.

Global economy and COVID-19. In the second quarter of 2020, the global response to fight the COVID-19 pandemic continued to adversely affect markets as a result of widespread business closures and shelter-in-place orders in major economies of the world, including the U.S. and Europe. Though restrictions in some countries began to ease in June, the widespread effects of the pandemic continue to have a negative impact on the global economy. To date, the pandemic has not adversely affected Asetek's business. However, the Company recognizes significant uncertainty related to COVID-19 over time.

Gaming and enthusiast. In recent months, the PC gaming hardware market has experienced a surge in demand. Accordingly, Asetek is projecting a near-term increase in demand in the Gaming and Enthusiast market through the second half of 2020.

In late 2019, one of Asetek's largest OEM customers began sourcing liquid cooling products from an alternative supplier. The Company expects that continued focus of resources to the Gaming and Enthusiast market, growing market share of new and existing OEMs, the rebranding program and launch of innovative new products to partly mitigate the effects of this customer transition.

Data center. Asetek anticipates continued growth in end-user adoption with deliveries to new HPC installations through OEM partners. Recent increased shipments of RackCDU™ liquid cooling to existing partners and the addition of HPE as a global partner reflect the continued success and projected long-term growth of partners' HPC deployments of Asetek liquid cooling.

Though significant long-term revenue growth is expected, there is an apparent need for public standards to trigger wider data center adoption of liquid cooling. Direct-to-chip liquid cooling enables power savings and CO2 emission reductions from the reuse of data center waste heat and is one of, if not the most impactful and significant technologies available in the world to address these issues. Asetek continues to participate in targeted campaigns to influence and educate politicians and support wider understanding of the significant environmental and circular economy benefits enabled by liquid cooling.

Group results. On July 21, 2020, Asetek updated its full-year revenue outlook following increased sales expectations for the rest of 2020, primarily driven by strong demand for the Gaming and Enthusiast product group. The full-year 2020 Group revenue expectation was updated to an increase of 5% to 15%, corresponding to between $57.1 million and $62.5 million, compared with 2019 revenue of USD 54.3 million. The previous expectation was for a year-over-year decline in the Group revenue.

Gross margin for the full-year 2020 is expected to increase from 2019. While the second-half gross margin is expected to increase compared with the same period of 2019, it is likely to decrease from the first half of 2020 due to product mix changes and some additional costs. Full-year 2020 gross margin is expected to approximate 47%. Asetek expects an income before tax of about $4 to $5 million, compared with $1.5 million in 2019.

The Company recognizes significant uncertainty related to potential impact from COVID-19 over time. Any such uncertainty is not included in the expectations for the remainder of 2020.

Intellectual Property

Asetek holds a portfolio of intellectual property (IP) rights including patents providing competitive advantages and high barriers to entry for competitors. Currently Asetek has pending patent and utility model applications worldwide, with additional applications under preparation.

As part of efforts to build and maintain its market share, the Company continues to closely review and assess all competitive offerings for infringement of its patents. The Company has strengthened its intellectual property platform and competitiveness via several positive lawsuit outcomes in prior years.

The Company is involved in various ongoing legal disputes, including the following matters:

In January 2019, Asetek filed a patent infringement lawsuit against CoolIT in the Northern District of California seeking judgment that CoolIT infringes Asetek's U.S. Patent Nos. 8,240,362; 8,245,764; 9,733,681; 10,078,354; and 10,078,355. The litigation is in a relatively early stage and no trial date has been set. CoolIT has filed counterclaims asserting infringement of four CoolIT patents, which Asetek denies. Asetek has also filed review petitions in the U.S. Patent and Trademark Office (USPTO) to challenge two of the CoolIT patents asserted in the litigation, and CoolIT filed review petitions in the USPTO to challenge three of the Asetek patents asserted in the litigation. Asetek will vigorously defend these challenges.

In April 2016, Asetek initiated patent infringement proceedings against CoolerMaster and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against CoolerMaster, the Courts dismissed Asetek's claim. Asetek appealed the most recent decision to the Dutch Supreme Court which has not yet ruled. The proceedings against Coolergiant have been stayed, pending final judgment in the Cooler Master case.

In 2017, Coolergiant GmbH filed suit against Asetek Danmark A/S in Mannheim District Court requesting declaration of non-infringement in Germany of an Asetek patent. The Company disputed the allegations and filed counterclaim motions. In November 2018, the Court ruled that the named Coolergiant products infringe on Asetek's patent and granted Asetek claims for injunctive relief, rendering of accounts, recall and destruction. Coolergiant appealed the decision and initiated an action to nullify Asetek's patent. In the nullity proceedings, the German Patent Court revoked the German part of Asetek's patent in February 2020. Asetek plans to appeal the decision to the German Supreme Court. The infringement appeal and enforcement proceedings have been stayed until the Supreme Court rules on the nullity proceedings.

Corporate Matters

The Company's annual general meeting was held on April 22, 2020, where the following matters occurred or were reported:

- The Annual Report 2019, as proposed by the Board of Directors, was approved as published.
- The existing members of the Board of Directors made themselves available for re-election. The proposed candidates for the Board were all elected, and the Board of Directors is hereinafter comprised of Chairman Jukka Pertola, Vice Chairman Chris Christopher, Jørgen Smidt, Maria Hjorth and Erik Damsgaard. Mrs. Hjorth is Chairman of the Audit Committee and Mr. Pertola is Chairman of the Remuneration Committee.
- The Nomination Committee is comprised of Chairman Ib Sønderby, Claus Berner Møller and Jukka Pertola.
- The Board of Directors was authorized to acquire the Company's own shares.
- PricewaterhouseCoopers, State Authorized Public Accountants, were re-elected as auditors

Risk Factors

The Company has historically incurred operating losses. Revenue in the Gaming and Enthusiast market is subject to fluctuations and is dependent on Asetek's ability to develop new, high performance products, the popularity in the marketplace of offerings from Asetek's customers, and timely releases of powerful new technologies and high-profile computer games in the PC industry. Asetek's Data center business is in its development stages and revenue growth is dependent on market acceptance of its liquid cooling products, increased demand from existing OEMs and Asetek's ability to obtain and build partnerships with new OEMs.

In the first half of 2020, three customers accounted for 35%, 10% and 10% of total revenue. Shipments to one of these customers reflect a significant decline compared with recent prior periods and is not expected to increase in the future. The Company is actively working with several of its customers to grow their respective market shares and order volumes.

In December 2019, a novel strain of coronavirus (SARS-CoV-2) causing the COVID-19 disease surfaced in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a global pandemic. The U.S., Denmark and other countries have enacted temporary closures of businesses, issued quarantine orders and taken other restrictive measures. The Company's operating sites are complying with regulations and recommendations imposed by local governments for minimizing the virus' spread. If production must be stopped or a critical number of employees become too ill to work, business operations could be adversely affected. If suppliers experience closures or reductions in capacity utilization, Asetek may have difficulty sourcing materials needed to fulfill production requirements. If customers experience adverse business consequences, demand for Asetek's products could decline. The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore management cannot predict the extent to which Asetek's results of operations or financial condition will ultimately be impacted.

The U.S. has imposed a 25% tariff on imports of goods manufactured in China, which include Asetek products. The existence of the tariff has contributed to the uncertainties in the Gaming & Enthusiast market and the recent decline in Asetek's revenue. The Company continues to work to minimize the impact of the tariff on Asetek and its customers.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. Asetek's Gaming and Enthusiast products have been historically assembled in Xiamen, China by a single contract manufacturer which may be difficult to substitute in the short term if the need should arise.

Asetek has filed and defended lawsuits against competitors for patent infringement. While some of the cases have been settled or dismissed, some may continue, and new cases may be initiated. Such cases may proceed for an extended period and could potentially lead to an unfavorable outcome to Asetek. Asetek has incurred significant legal costs associated with litigation and may continue to do so in the future to the extent management believes it is necessary to protect intellectual property.

Asetek moved from USA to Denmark in 2013. However, USA – in a unilateral tax treaty override – still considers Asetek A/S a U.S. tax subject, effectively creating a double taxation situation. Asetek has approached both countries' tax authorities with the aim of resolving the double tax situation as per the double taxation treaty. However, a determination may take several years, and the authorities are not obligated to resolve the problem. In addition, recent U.S. regulations on taxation of foreign earnings have increased Asetek's tax liability. The Company is working with its tax advisors to investigate and resolve these matters.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of June 30, 2020, its principal cash holdings are maintained in deposit accounts in U.S. dollars and Danish krone.

A more thorough elaboration on risk factors can be found in the Company's Annual Report for 2019, available from the Company's website: www.asetek.com

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q2 2020	Q2 2019	1H 2020	1H 2019	2019
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	$ 14,147	$ 17,103	$ 23,271	$ 28,282	$ 54,334
Cost of sales	6,872	9,947	11,498	16,357	31,329
Gross profit	7,275	7,156	11,773	11,925	23,005
Research and development	1,339	1,200	2,506	2,455	4,889
Selling, general and administrative	3,936	4,591	8,188	9,131	17,821
Other expense (income)	-	(753)	-	(753)	(753)
Total operating expenses	5,275	5,038	10,694	10,833	21,957
Operating income	2,000	2,118	1,079	1,092	1,048
Foreign exchange (loss) gain	(323)	(126)	(111)	38	218
Finance income (costs)	(37)	56	(28)	104	188
Total financial income (expenses)	(360)	(70)	(139)	142	406
Income before tax	1,640	2,048	940	1,234	1,454
Income tax (expense) benefit	(325)	(301)	(325)	(308)	(2,082)
Income for the period	1,315	1,747	615	926	(628)
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation adjustments	457	236	58	(94)	(444)
Total comprehensive income	$ 1,772	$ 1,983	$ 673	$ 832	$ (1,072)
Income per share (in USD):					
Basic	$ 0.05	$ 0.07	$ 0.02	$ 0.04	$ (0.02)
Diluted	$ 0.05	$ 0.07	$ 0.02	$ 0.04	$ (0.02)

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

Figures in USD (000's)	30 Jun 2020	31 Dec 2019
ASSETS	*Unaudited*	
Non-current assets		
Intangible assets	$ 1,933	$ 1,920
Property and equipment	5,382	6,115
Deferred income tax assets	5,230	5,521
Other assets	336	307
Total non-current assets	12,881	13,863
Current assets		
Inventory	1,656	1,657
Trade receivables and other	11,413	14,080
Cash and cash equivalents	24,780	24,505
Total current assets	37,849	40,242
Total assets	$ 50,730	$ 54,105
EQUITY AND LIABILITIES		
Equity		
Share capital	$ 423	$ 423
Retained earnings	39,377	38,197
Translation and treasury share reserves	(1,192)	388
Total equity	38,608	39,008
Non-current liabilities		
Long-term debt	2,380	2,774
Total non-current liabilities	2,380	2,774
Current liabilities		
Short-term debt	1,345	1,518
Accrued liabilities	1,157	1,022
Accrued compensation & employee benefits	2,093	1,526
Trade payables	5,147	8,257
Total current liabilities	9,742	12,323
Total liabilities	12,122	15,097
Total equity and liabilities	$ 50,730	$ 54,105

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

Unaudited

Figures in USD (000's)	Share capital	Translation reserves	Treasury share reserves	Retained earnings	Total
Equity at January 1, 2020	$ 423	$ 392	$ (4)	$ 38,197	$ 39,008
Total comprehensive income - six months ended June 30, 2020					
Income for the period	-	-	-	615	615
Foreign currency translation adjustments	-	58	-	-	58
Total comprehensive income - six months ended June 30, 2020	-	58	-	615	673
Transactions with owners - six months ended June 30, 2020					
Shares issued	-	-	-	64	64
Shares repurchased	-	-	(1,638)	-	(1,638)
Share based payment expense	-	-	-	501	501
Transactions with owners - six months ended June 30, 2020	-	-	(1,638)	565	(1,073)
Equity at June 30, 2020	$ 423	$ 450	$ (1,642)	$ 39,377	$ 38,608

Equity at January 1, 2019	$ 422	$ 836	$ (4)	$ 37,704	$ 38,958
Total comprehensive income - six months ended June 30, 2019					
Income for the period	-	-	-	926	926
Foreign currency translation adjustments	-	(94)	-	-	(94)
Total comprehensive income - six months ended June 30, 2019	-	(94)	-	926	832
Transactions with owners - six months ended June 30, 2019					
Shares issued	-	-	-	60	60
Share based payment expense	-	-	-	539	539
Transactions with owners - six months ended June 30, 2019	-	-	-	599	599
Equity at June 30, 2019	$ 422	$ 742	$ (4)	$ 39,229	$ 40,389

These financial statements should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

Figures in USD (000's)	1H 2020	1H 2019	2019
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ 615	$ 926	$ (628)
Depreciation and amortization	1,721	1,946	4,057
Finance income recognized	(49)	(187)	(359)
Finance costs recognized	78	83	171
Finance income, cash received	49	187	359
Finance costs, cash paid	(41)	(37)	(84)
Income tax expense	325	308	2,082
Cash receipt (payment) for income tax	-	-	(172)
Share based payments expense	501	539	1,056
Changes in trade receivables, inventories, other assets	2,674	3,858	2,234
Changes in trade payables and accrued liabilities	(2,476)	1,021	154
Net cash provided by (used in) operating activities	3,397	8,644	8,870
Cash flows from investing activities			
Additions to intangible assets	(700)	(716)	(1,441)
Purchase of property and equipment	(298)	(499)	(713)
Net cash used in investing activities	(998)	(1,215)	(2,154)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	(212)	23	22
Repurchase of common shares	(1,638)	-	-
Proceeds from issuance of share capital	68	58	64
Principal payments on capitalized leases	(363)	(409)	(734)
Net cash provided by (used in) financing activities	(2,145)	(328)	(648)
Effect of exchange rate changes on cash and cash equivalents	21	34	(190)
Net changes in cash and cash equivalents	275	7,135	5,878
Cash and cash equivalents at beginning of period	24,505	18,627	18,627
Cash and cash equivalents at end of period	$ 24,780	$ 25,762	$ 24,505
Supplemental disclosures -			
Property and equipment acquired under leases	$ 78	$ 271	$ 413

These financial statements should be read in conjunction with the accompanying notes.

Notes to the quarterly financial statements

1. General information

Asetek A/S ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') designs, develops and markets thermal management solutions used in computers and data center servers. The Group's core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is based in Aalborg, Denmark with offices in USA, China and Taiwan. The Company's shares trade on the Oslo Stock Exchange under the symbol 'ASETEK'.

These condensed consolidated financial statements for the quarter ended June 30, 2020 have been prepared on a historical cost convention in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union (EU) and do not include all of the information and disclosure required in the annual consolidated financial statements. These statements should be read in conjunction with the Asetek A/S 2019 Annual Report.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2019.

The Group operates in an industry where seasonal or cyclical variations in total sales are not normally experienced during the financial year.

2. Equity

In April, the Company announced a share buy-back program to offset employee option grants. The Company may purchase up to 1.0 million Asetek common shares on the open market for a maximum cost of $4.5 million through September 2020. In the second quarter, the Company repurchased 287 thousand shares under this program for a total cost of $1.64 million.

On April 21, 2020, the Company granted a total of 320,300 equity options to employees. Each option has an exercise price of NOK38.33 per share and becomes exercisable gradually over a period of four years. Using the Black-Scholes pricing model, the estimated fair value of these options granted is approximately $0.5 million. The fair value was calculated using the following assumptions: risk-free interest rate of 0.3% to 0.4%; expected volatility of approximately 60%; expected option life of 3.5 to 5.5 years; dividend yield of 0%.

At June 30, 2020, there were 25.8 million common shares outstanding including 0.5 million shares held in treasury. Treasury shares may be used to fulfill employee options exercised. At June 30, 2020, there were a total of 2.88 million warrants and options outstanding. Of the warrants outstanding, 0.3 million (with exercise price of NOK36.50) will expire in October 2020 to the extent they are not exercised.

Funds received by the Company from employee exercises of warrants and options totaled $68,000 in the first half of 2020 ($58,000 in the same period of 2019). Share based payment expense associated with total warrants and options outstanding was $0.5 million and $0.5 million in the six months ended June 30, 2020 and 2019, respectively.

3. Intangible assets

The Group's business includes a significant element of research and development activity. Under IAS 38, there is a requirement to capitalize and amortize development spend to match costs to expected benefits from projects deemed to be commercially viable. Costs capitalized are recorded on the balance sheet as intangible assets, net of amortization. In the first half of 2020, the Company capitalized approximately $0.7 million of development costs and recorded amortization of approximately $0.7 million (capitalized costs of $0.7 million and amortization of $0.9 million in the first half of 2019).

4. Earnings (losses) per share

IAS 33 requires disclosure of basic and diluted earnings per share for entities whose shares are publicly traded. Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the number of common shares outstanding used in the Basic calculation for the effect of dilutive equity instruments, which include options, warrants and debt or preferred shares that are convertible to common shares, to the extent their inclusion in the calculation would be dilutive.

Second Quarter

USD (000's)	Q2 2020	Q2 2019
Income attributable to equity holders of the Company (USD 000's)	$ 1,315	$ 1,747
Weighted average number of common shares outstanding (000's)	25,549	25,581
Basic income per share	$ 0.05	$ 0.07
Weighted average number of common shares oustanding (000's)	25,549	25,581
Instruments with dilutive effect:		
Warrants and options	974	426
Weighted average number of common shares oustanding, diluted	26,523	26,007
Diluted income per share	$ 0.05	$ 0.07

First Half

	1H 2020	1H 2019
Income attributable to equity holders of the Company (USD 000's)	$ 615	$ 926
Weighted average number of common shares outstanding (000's)	25,576	25,562
Basic income per share	$ 0.02	$ 0.04
Weighted average number of common shares oustanding	25,576	25,562
Instruments with dilutive effect:		
Warrants and options	374	505
Weighted average number of common shares oustanding, diluted	25,950	26,067
Diluted income per share	$ 0.02	$ 0.04

5. Transactions with related parties

The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In the first six months of 2020, the Group purchased services totaling approximately $275,000 ($291,000 in first six months of 2019) from this vendor. At June 30, 2020 and 2019, the Group had outstanding payables to this vendor of $55,000 and $56,000 respectively.

6. Deferred income tax

The Company recognizes deferred income tax assets only to the extent that the realization of the tax benefit to offset future tax liabilities is considered to be probable. As of June 30, 2020, the Company has deferred tax assets of $5.2 million, representing the value of the estimated amount of net operating losses that will be utilized to offset future taxable income. In future periods, management will continue to assess the probability of realization of the assets' value and adjust the valuation in accordance with IAS 12. Refer to the Asetek A/S 2019 Annual Report regarding critical accounting estimates and assumptions.

7. Segment and geographical information

Beginning in 2020, due to the insignificance of the data center business which represented less than 5% of Group revenue in 2019, the Company no longer identifies the data center business as a separate segment. The Group operates as one business segment in several geographical areas, principally in Asia, Europe and the Americas. The following table presents the Group's revenue in each of the principal geographical areas, based on the regions where Asetek delivers products to its customers:

USD (000's)	Q2 2020	Q2 2019	1H 2020	1H 2019
Asia	11,423	15,053	19,662	24,975
Americas	1,716	1,715	2,368	2,606
Europe	1,008	335	1,241	701
Total revenue	14,147	17,103	23,271	28,282

Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Half Year Report of Asetek A/S for the period 1 January – 30 June 2020. The Half Year Report is presented in accordance with the International Accounting Standard IAS 34 on Interim Financial Reporting and additional Danish disclosure requirements. The accounting policies applied in the Half Year Report are unchanged from those applied in the Group's Annual Report for 2019.

We consider the accounting policies appropriate, the accounting estimates reasonable and the overall presentation of the Half Year Report adequate. Accordingly, we believe that the Half Year Report gives a true and fair view of Asetek's consolidated financial position, results of operations and cash flows for the period.

In our opinion, the Half Year Report includes a true and fair account of the matters addressed and describes the most significant risks and elements of uncertainty facing Asetek. The Half Year Report has not been audited or reviewed by the auditors.

Asetek A/S
Aalborg, 12 August 2020

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Jukka Pertola
Chairman

Chris J. Christopher
Vice chairman

Maria Hjorth
Member

Jørgen Smidt
Member

Erik Damsgaard
Member

Contact:

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